

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): May 7, 2020

ShotSpotter, Inc.

(Exact name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction
of Incorporation)

001-38107

(Commission File Number)

47-0949915
(IRS Employer
Identification No.)

7979 Gateway Blvd., Suite 210
Newark, California
(Address of Principal Executive Offices)

94560
(Zip Code)

Registrant's Telephone Number, Including Area Code: (510) 794-3100

Not Applicable

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instructions A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value \$0.005 per share	SSTI	The Nasdaq Capital Market

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§ 230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§ 240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item 2.02 Results of Operations and Financial Condition.

On May 7, 2020, ShotSpotter, Inc. (the “Company”) issued a press release announcing its financial results for the quarter ended March 31, 2020. The Company’s press release is furnished as Exhibit 99.1 to this Current Report on Form 8-K.

The information included in Item 2.02 of this Current Report on Form 8-K and Exhibit 99.1 attached hereto are being furnished and shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended (the “Securities Act”), or the Exchange Act, regardless of any general incorporation language in such filing.

Item 7.01 Regulation FD Disclosure.

On May 7, 2020, the Company issued a letter to its shareholders from its Chief Executive Officer, Ralph Clark. The letter is furnished as Exhibit 99.2 to this Current Report on Form 8-K.

The information included in Item 7.01 of this Current Report on Form 8-K and Exhibit 99.2 attached hereto are being furnished and shall not be deemed “filed” for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act or the Exchange Act, regardless of any general incorporation language in such filing.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

Exhibit Number	Description
99.1	Press release dated May 7, 2020
99.2	Letter from Ralph Clark, the Chief Executive Officer of the Company, dated May 7, 2020

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ShotSpotter, Inc.

Date: May 7, 2020

By: _____ /s/ Ralph A. Clark
Ralph A. Clark
President and Chief Executive Officer



ShotSpotter Reports First Quarter 2020 Financial Results

9% Year-over-Year Increase in Revenue Drives Another Quarter of Solid Adjusted EBITDA Growth and GAAP Profitability; Strong Liquidity Position with \$28.7 Million in Cash

NEWARK, CA – May 7, 2020 – ShotSpotter, Inc. (NASDAQ: SSTI), the leader in acoustic gunshot detection and precision policing solutions that help law enforcement officials and security personnel prevent and reduce gun violence, today reported financial results for the quarter ended March 31, 2020.

First Quarter 2020 Financial and Operational Highlights

- Revenues increased 9% to \$10.5 million from \$9.6 million for the first quarter of 2019.
- Gross profit was 58%, which was consistent with the first quarter of 2019.
- Net income totaled \$13,000 or \$0.00 per share, an improvement from net loss of \$0.4 million, or \$(0.03) per share, for the first quarter of 2019.
- Adjusted EBITDA¹ increased to \$2.2 million from \$1.6 million for the first quarter of 2019.
- Added 5 net new “go-live” square miles of coverage during the quarter, bringing the total miles covered to 735 at quarter end.
- Strong balance sheet with \$28.7 million in cash and cash equivalents at the end of the quarter, up from \$24.6 million at the end of fourth quarter of 2019.
- Updated revenue guidance for fiscal 2020 to a range of \$43 million to \$46 million, representing 9% year-over-year growth at the midpoint, with expectations to remain GAAP profitable for full year 2020.

¹ See the section below titled “Non-GAAP Financial Measures” for more information about adjusted EBITDA, and its reconciliation to GAAP net income (loss).

Management Commentary

"While the first quarter of 2020 presented remarkable challenges resulting from the global response to the coronavirus pandemic, we were able to make progress on our strategic initiatives and continue to serve our loyal customer base as a premier service provider and trusted partner," said Ralph Clark, CEO of ShotSpotter. "Financially, the quarter was marked by moderate revenue growth, solid gross margins, positive net income, and an improvement in our cash position by approximately \$4 million from the end of last year.

"Operationally, despite the proliferation of 'stay-at-home' policies and a moratorium on travel since early March, we completed our full deployment in Puerto Rico, added two new Missions deployments, re-signed the U.S. Virgin Islands as a customer, and were able to add five net new go-live miles during the quarter.

“Our investments in people, process, and infrastructure have afforded us a great deal of operational resiliency. We continue to monitor our 100+ deployments, review and classify gunshots all without any diminution of quality or performance. With a robust cash position, strong unit economics, and good visibility from our recurring revenue base and solid pipeline, we believe we have the right foundation in place to ensure we can successfully navigate these uncertain times.”

First Quarter 2020 Financial Results

Revenues for the first quarter of 2020 increased 9% to \$10.5 million from \$9.6 million for the same period in 2019. The increase in revenues was due to growth in the number of miles covered, which was driven by expanded deployments with current customers as well as the addition of new customers, offset by delays in both deploying contracted miles and renewals with certain customers. The company currently expects to close the majority of the delayed renewals in the second quarter of 2020.

Gross profit for the first quarter of 2020 was \$6.1 million (58.5% of revenue), an improvement from \$5.6 million (58.3% of revenue) for the same period in 2019. Gross margin was impacted by the formalization of our customer success organization which resulted in an increase in costs classified within cost of revenues.

Total operating expenses for the first quarter of 2020 were \$6.1 million compared to \$5.9 million for the same period in 2019. The increase in operating expenses was primarily due to investments in sales and marketing, higher insurance costs, offset by the reallocation of certain resources to build our customer success organization.

Net income for the first quarter of 2020 totaled \$13,000 or \$0.00 per basic and diluted share (based on 11.3 million basic and 11.7 million diluted weighted average shares outstanding), an improvement from net loss of \$362,000 or \$0.03 per share (based on 11.0 million basic and diluted weighted average shares outstanding) for the same period in 2019.

Adjusted EBITDA for the first quarter of 2020 totaled \$2.2 million, an improvement from \$1.6 million for the same period in 2019.

2020 Financial Outlook

Based on management’s current visibility, the company has updated its revenue range for the full fiscal year of 2020 to reflect its current anticipated impact of the COVID-19 pandemic on its operations. The company now forecasts revenue to range between \$43 million and \$46 million (previously \$46 million to \$48 million), representing an increase of 9% at the midpoint compared to fiscal year 2019. The company continues to expect to remain GAAP profitable on an annual basis.

The company’s financial outlook statements are based on current expectations. The preceding statements are forward-looking, and actual results could differ materially depending on market conditions and the factors set forth under “Safe Harbor Statement” below.

Conference Call

ShotSpotter will hold a conference call today (May 7, 2020) at 4:30 p.m. Eastern Time (1:30 p.m. Pacific Time) to discuss these results and provide an update on business conditions.

ShotSpotter management will host the presentation, followed by a question and answer period.

U.S. dial-in: +1 (877) 451-6152
International dial-in: +1 (201) 389-0879
Conference ID: 13701870

The conference call will be broadcast simultaneously and available for replay via the investor section of the company's website at www.shotspotter.com.

Please call the conference telephone number 5-10 minutes prior to the start time. An operator will register your name and organization. If you have any difficulty connecting with the conference call, please contact ShotSpotter's investor relations team at 1-949-574-3860.

A replay of the call will be available after 7:30 p.m. Eastern Time on the same day through June 7, 2020.

U.S. replay dial-in: +1 (844) 512-2921
International replay dial-in: +1 (412) 317-6671
Replay ID: 13701870

Non-GAAP Financial Measures

Adjusted EBITDA: ShotSpotter discloses the following non-GAAP financial measure in this release and the earnings call referencing this press release: Adjusted EBITDA, which represents the company's net income or loss before interest (income) expense, income taxes, depreciation and amortization and stock-based compensation expense. Adjusted EBITDA is a measure used by management internally to understand and evaluate the company's core operating performance and trends across accounting periods and in connection with developing future operating plans, making strategic decisions regarding the allocation of capital and considering initiatives focused on cultivating new markets for our solutions. In particular, the exclusion of these expenses in calculating adjusted EBITDA facilitates comparisons of the company's operating performance on a period-to-period basis.

ShotSpotter believes adjusted EBITDA also provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors. For example, ShotSpotter adjusts EBITDA for stock-based compensation expense because that expense often varies for reasons that are generally unrelated to financial and operational performance in any particular period. Stock-based compensation is utilized by ShotSpotter to attract and retain employees with a goal of long-term retention and the alignment of employee interests with those of the Company and its stockholders, rather than to address operational performance for any particular period.

Adjusted EBITDA is not a measure calculated in accordance with GAAP. Accordingly, use of adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of ShotSpotter's financial results as reported under GAAP. Some of these limitations are: (1) adjusted EBITDA does not reflect the potentially dilutive impact of equity-based compensation; and (2) other companies, including companies in our industry, may calculate adjusted EBITDA or similarly titled measures differently, which reduces the usefulness of the metric as a comparative measure. Because of these and other limitations, you should consider adjusted EBITDA alongside our GAAP-based financial performance measures, in particular net income or loss, and our other GAAP financial results.

The following table presents a reconciliation of adjusted EBITDA to net income or loss, the most directly comparable GAAP measure, for each of the periods indicated:

	Three Months Ended March 31,	
	2020	2019
	<u>(unaudited)</u>	
GAAP net income (loss)	\$ 13	\$ (362)
Less:		
Interest income	(93)	(33)
Income taxes	(1)	18
Depreciation and amortization	1,367	1,238
Stock-based compensation expense	887	754
Adjusted EBITDA	<u>\$ 2,173</u>	<u>\$ 1,615</u>

Safe Harbor Statement

This press release contains "forward-looking statements" within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, including but not limited to statements regarding the company's business plans, the anticipated impact of the COVID-19 pandemic, international expansion, expectations regarding future sales and expenses, our ability to capitalize on market opportunities, the ability to achieve near and long-term growth and profitability objectives, anticipated timing and volume of customer contract renewals, and revenue and GAAP profitability guidance for full year 2020. Words such as "expect," "anticipate," "should," "believe," "target," "project," "goals," "estimate," "potential," "predict,"

"may," "will," "could," "intend," variations of these terms or the negative of these terms and similar expressions are intended to identify these forward-looking statements. Forward-looking statements are subject to a number of risks and uncertainties, many of which involve factors or circumstances that are beyond the company's control. The company's actual results could differ materially from those stated or implied in forward-looking statements due to a number of factors, including but not limited to: the company's ability to successfully negotiate and execute contracts with new and existing customers in a timely manner, if at all, the company's ability to address the business and other impacts and uncertainties associated with the COVID-19 pandemic, maintain and increase sales; the availability of funding for the company's customers to purchase the company's solutions; the complexity, expense and time associated with contracting with government entities; the company's ability to maintain and expand coverage of existing public safety customer accounts and further penetrate the public safety market; the company's ability to sell its solutions into international and other new markets; the lengthy sales cycle for the company's solutions; changes in federal funding available to support local law enforcement; the company's ability to deploy and deliver its solutions; and the company's ability to maintain and enhance its brand, as well as other risk factors included in the company's most recent annual report on Form 10-K and other SEC filings. These forward-looking statements are made as of the date of this press release and are based on current expectations, estimates, forecasts and projections as well as the beliefs and assumptions of management. Except as required by law, the company undertakes no duty or obligation to update any forward-looking statements contained in this release as a result of new information, future events or changes in its expectations.

About ShotSpotter, Inc.

ShotSpotter (NASDAQ: SSTI) provides acoustic gunshot detection and precision-policing solutions to help law enforcement officials and security personnel prevent and reduce gun violence and make cities, campuses and facilities safer. The company's flagship product, ShotSpotter® Flex™, is the leading gunshot detection, location and forensic system trusted by over 100 cities. ShotSpotter® Missions™ uses artificial intelligence-driven analysis to help strategically plan patrol missions and tactics for maximum crime deterrence. ShotSpotter has been designated a Great Place to Work® Company.

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ShotSpotter, Inc.
Condensed Consolidated Statements of Operations
(In thousands, except share and per share data)

	Three Months Ended March 31,	
	2020	2019
	(Unaudited)	
Revenues	\$ 10,458	\$ 9,593
Costs		
Cost of revenues	4,342	4,004
Total costs	4,342	4,004
Gross profit	6,116	5,589
Operating expenses		
Sales and marketing	2,516	2,629
Research and development	1,352	1,294
General and administrative	2,271	1,986
Total operating expenses	6,139	5,909
Operating loss	(23)	(320)
Other income (expense), net		
Interest income, net	93	33
Other expense, net	(58)	(57)
Total other income (expense), net	35	(24)
Income (loss) before income taxes	12	(344)
Provision (benefit) for income taxes	(1)	18
Net income (loss)	\$ 13	\$ (362)
Net income (loss) per share, basic	\$ 0.00	\$ (0.03)
Net income (loss) per share, diluted	\$ 0.00	\$ (0.03)
Weighted average shares used in computing net income (loss) per share, basic	11,337,491	11,005,781
Weighted average shares used in computing net income (loss) per share, diluted	11,715,426	11,005,781

ShotSpotter, Inc.
Condensed Consolidated Balance Sheets
(In thousands)

	<u>March 31,</u> <u>2020</u> <u>(Unaudited)</u>	<u>December 31,</u> <u>2019</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 28,677	\$ 24,550
Accounts receivable and contract asset	7,313	13,883
Prepaid expenses and other current assets	1,564	1,764
Total current assets	37,554	40,197
Property and equipment, net	16,617	16,556
Operating lease right-of-use asset	485	556
Goodwill	1,379	1,379
Intangible assets, net	244	249
Other assets	1,563	1,634
Total assets	<u>\$ 57,842</u>	<u>\$ 60,571</u>
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 1,003	\$ 1,179
Deferred revenue, short-term	24,091	26,360
Accrued expenses and other current liabilities	4,033	4,885
Total current liabilities	29,127	32,424
Deferred revenue, long-term	497	598
Other liabilities	237	298
Total liabilities	29,861	33,320
Stockholders' equity		
Common stock	57	57
Additional paid-in capital	123,851	122,907
Accumulated deficit	(95,566)	(95,579)
Accumulated other comprehensive loss	(361)	(134)
Total stockholders' equity	27,981	27,251
Total liabilities and stockholders' equity	<u>\$ 57,842</u>	<u>\$ 60,571</u>

ShotSpotter, Inc.
Condensed Consolidated Statements of Cash Flows
(In thousands)

	Three Months Ended March 31,	
	2020	2019
	(Unaudited)	
Cash flows from operating activities:		
Net income (loss)	\$ 13	\$ (362)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation of property and equipment	1,343	1,217
Amortization of intangible assets	24	21
Stock-based compensation	887	754
Loss on disposal of property and equipment	2	—
Changes in operating assets and liabilities:		
Accounts receivable and contract asset	6,570	7,892
Prepaid expenses and other assets	310	195
Accounts payable	(562)	(346)
Accrued expenses and other current liabilities	(491)	(810)
Deferred revenue	(2,370)	344
Net cash provided by operating activities	<u>5,726</u>	<u>8,905</u>
Cash flows from investing activities:		
Purchase of property and equipment	(1,117)	(896)
Investment in intangible and other assets	(24)	(34)
Net cash used in investing activities	<u>(1,141)</u>	<u>(930)</u>
Cash flows from financing activities:		
Payment for acquisition liability	(347)	—
Proceeds from issuance of common stock in public offering	—	11,247
Payments of offering costs	—	(127)
Proceeds from exercise of stock options	58	219
Net cash provided by (used in) financing activities	<u>(289)</u>	<u>11,339</u>
Increase in cash, cash equivalents and restricted cash	4,296	19,314
Effect of exchange rate on cash and cash equivalents	(169)	(8)
Cash, cash equivalents and restricted cash at beginning of year	24,550	10,278
Cash, cash equivalents and restricted cash at end of period	<u>\$ 28,677</u>	<u>\$ 29,584</u>



May 7, 2020

Dear Fellow Shareholders,

I hope this year's annual shareholder letter finds you and your loved ones safe and in good health as we collectively confront the COVID-19 crisis. My faith informs my view that "this too shall pass". I am confident that ShotSpotter will ultimately emerge out of this stronger, more resilient, and with deeper connections with our loyal customer base as they navigate their own COVID-19 challenges.

It is truly amazing how quickly the tectonic shift in the global economic outlook occurred following the first reported case of COVID-19 in the U.S. on January 20, 2020. As a company, we were fortunate in that we already had a fairly complete and robust contingency plan in place. That plan included critical investments in technology infrastructure, people and process, and was designed to enable us to be prepared to operate in extremely adverse circumstances such as a major data center or network failure, a targeted cyber-attack or a disruptive earthquake in Northern California. Who would have ever imagined that our Black Swan contingency plan would be triggered by a tiny microbe that appears to have originated on the other side of the globe?

In early March, we issued a broad work from home mandate for everyone, including our colleagues in the Incident Review Center (more on that later). We also issued a total travel ban for all employees at the same time. This was driven in large part by our desire to put people first and optimize the health and welfare of our employees as well as contribute our small part in helping to flatten the curve. Although it has caused delays in going live with customer deployments due to our inability to have local boots on the ground, it was the right call. As I write this letter, we are all still working from home and not traveling. We are adapting well given the circumstances. Frequent company-wide and team video conference calls are standard fare including Zoom Story Time where volunteer employees read stories to their colleague's children. I am very pleased to report that, to the best of my knowledge, no one in the company to date or any of their immediate family members has contracted the virus. Of course, how and when we return to the office and travel will be in compliance with all applicable laws and the guidance of health authorities, with the objective of preserving the health and safety of our employees and those of our customers and the communities they serve to guide us.

I will return to my thoughts about our COVID-19 experience over the past several weeks along with how we plan to move forward in 2020 and beyond later. However, let's first take a moment to review our performance in 2019.

Revenue Growth

Our GAAP revenues grew year over year by 17.2%, from \$34.8 million in 2018 to \$40.8 million in 2019. The revenue increase of \$6 million was due to new miles going live in the year from new and existing customers and miles that went live in 2018 for which we recognized a full year's worth of revenues in 2019. These increases were partially offset by attrition of approximately \$900,000 and the timing of renewals from certain customers resulting in deferred revenues. Eleven new customers went live in 2019, which when combined with expansion miles of existing customers that went live during the year, resulted in a total of 82 new net square miles in 2019.

Revenue Retention

Our 2019 revenue retention rate remained quite favorable at 111%. This indicates low churn and means that revenues recognized during the year, including from customer expansions and targeted price increases, more than offset revenues that we lost from customers that did not renew their contracts during the year.

Our goal is to maintain a 100%+ revenue retention rate going forward. The stickiness of our service is driven by the effectiveness of our solution in addressing the pervasive and costly problem of gun violence for our customers. Our unparalleled position is driven by our highly specialized and unique technology, superior service and a consultative approach to customer success, ensuring proper onboarding and best practices implementation. Our goal is to drive measurable positive customer outcomes. Over the years, our customers have publicized their stories of successfully reducing crime with ShotSpotter Flex playing an important part. Here are a few:

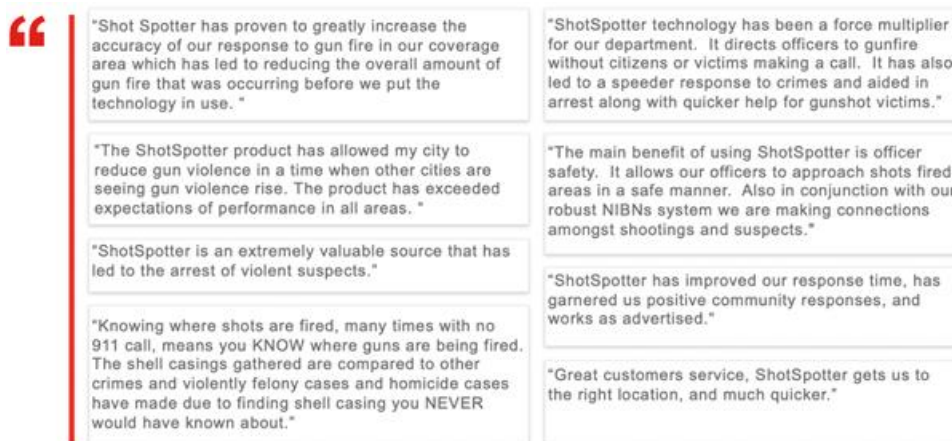


Source: www.shotspotter.com/results

We believe our revenue retention rate correlates with our Net Promoter Score (NPS), which is a bit of a company passion. We have seen our NPS steadily rise to our most recent 2019 score of +53%, which put ShotSpotter in the “excellent” category of NPS. While NPS is a strong indicator, it is the process, underlying questions and insights we gain from the NPS Survey that drive our action plan and priorities. Here is one of the many unprompted quotes we received in our last NPS Survey:

“ShotSpotter has been an extremely important component with regard to evidence collection and feeding NIBIN [the National Integrated Ballistic Information Network], especially since 76% of gunfire incidents in our SST coverage areas are unreported”.

Here are a few more:



NPS is about increasing customer intimacy and creating promoters driving strong word of mouth referrals. This is a key driver in efficient customer acquisition costs. We measure customer acquisition costs as sales and marketing spend per \$1.00 of new annualized contract value, which was \$0.43 in 2019. I believe these costs continue to be low compared to other comparable SaaS companies.

Operations

We published over 140,000 gunshot alerts to our customers in 2019. We continued to enhance our core ShotSpotter Flex offering through: improved machine classification; location accuracy; new reporting capabilities like the investigative lead summary (ILS); and important policy changes from our NYU Law School Privacy Audit. Organizationally, we expanded and re-tooled our sales organization, adding a new Vice President position to lead a newly formed solution sales team to proactively drive our three service offerings (Flex, Security and Missions) through existing territory sales. We also added another Vice President to lead the territory sales directors. Both Vice Presidents report directly to Gary Bunyard, our existing Senior Vice President, Sales and Security. Also reporting to Gary is a new director of sales operations, who focuses on renewals and proposals and RFP responses.

During the year, we also separated and elevated our Customer Success organization from the Sales organization. A newly hired Vice President of Customer Success now reports directly to me as a part of the leadership team. Our strategy is to seamlessly integrate the customer journey as they work with different functional organizations within ShotSpotter. We intend to grow the Customer Success function in staffing and capabilities in 2020.

These moves, adds and changes are all designed to generate profitable growth, maintain minimal customer attrition and increase customer intimacy—with the objective of growing the sales network effect of a strong referral base. We believe we can continue to maintain a SaaS industry leading position and low-cost customer acquisition costs that our vertical market orientation affords us.

Business Model

Probably the most under-appreciated but also most uniquely powerful aspect of our business is the operating leverage and efficiency we have. The company achieved full year GAAP profitability of \$1.8 million, or \$0.15 per share diluted, on approximately \$40 million in GAAP revenue in 2019. When we survey the SaaS business model landscape, we often see companies that are still not profitable at \$100 million annual run rates.

Our gross margin increased 500 basis points, from 55% in 2018 to 60% in 2019, while our total operating expenses only grew by only \$1 million from 2018 to 2019. Our net cash flows from operating and investing activities were \$8.8 million.

As the leading provider of precision-policing and security solutions for law enforcement and security personnel, with little direct competition, we are somewhat protected from the typical pricing pressure experienced in more competitive markets. We also benefit from operating expense leverage further down the income statement. Our ShotSpotter Flex solution has strong market fit and is a full-featured solution that we pioneered over 20 years ago. A significant amount of time and investment has gone into Flex in years past, yielding over 30 patents and a formidable competitive moat. Importantly, we are not required to get in a feature arms race with other offerings, which allows us to invest incrementally and smartly in capabilities that reduce our costs and/or increase value and stickiness for our customers-this is key. In addition, the vertical nature of the customer base we serve – our ability to discover, convert and support customers – affords us a significant efficiency in our sales and marketing spend. Lastly, our fanatical pursuit of NPS results in promoters who help sell our solution through strong word of mouth. Unlike non-state and local government commercial markets, our customers do not compete with one another. In fact, they do the opposite. They collaborate, and when something works, they are likely to tout their success with other agencies and their peers.

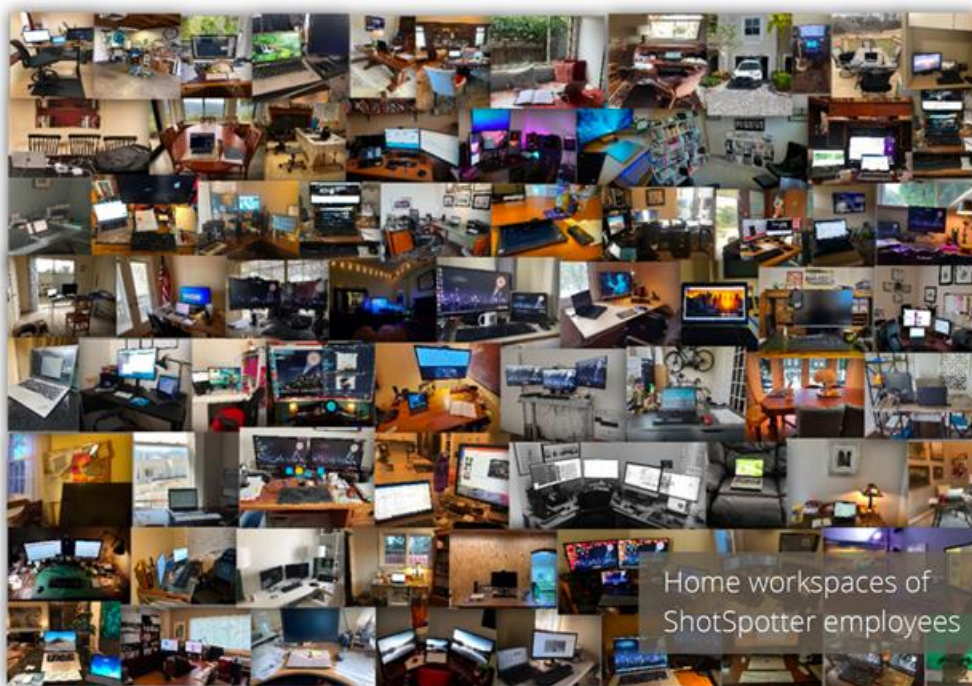
Capital Allocation

Capital allocation, or how a company allocates its financial resources, gets scant coverage in the general business press. This is unfortunate given that it is arguably one of the biggest levers a company has in driving investor value after scaling an attractive business model with strong unit economics. Our capital allocation priority is to profitably grow our business by focusing on organic growth opportunities, but to remain both disciplined and opportunistic when it comes to share repurchases and acquisitions that we believe can increase value to stockholders and other stakeholders – including our employees, our customers and the communities served by our customers – over the long term.

Our capital allocation options include: retain and increase cash on the balance sheet; pay a dividend; do acquisitions; and do share repurchases. With our long-term focus in mind, we have done three of the four. We have accumulated cash to appropriately strengthen our balance sheet and increase liquidity, including through our 2019 follow-on offering where we sold 250,000 shares of our stock for net proceeds of \$10.6 million after deducting offering expenses. In late 2018, we purchased the technology assets of HunchLab, which has become the foundation for our Missions solution. During 2019, we implemented a stock repurchase program under which we repurchased 257,824 shares for \$6.7 million. We ended the year with \$24.6 million in cash and no debt. We will continue to allocate our capital in a way we believe has the greatest opportunity to increase value to our stockholders and other stakeholders over the long term.

COVID-19 Journal

Our work-from-home policy required us to completely reconstitute our headquarters-based Incident Review Center (IRC) as a distributed work-from-home center on a 24/7 basis. As this reality emerged, I was not at all concerned about the hard infrastructure piece of this, as we had already provisioned company-configured laptops, increased network bandwidth, VPN tunnels, enhanced security and more. Nor was I concerned about the training or work ethic of our reviewers, who do incredible work in demanding situations. What I was concerned about, however, was the soft infrastructure or relationship magic amongst our reviewers and their collaboration between them and our Level 2/3 technical support engineers. Although I was confident that we would be able to provide a mostly intact service, I argued that we should notify customers of this change and warn them that there might be a slight diminution of service. Fortunately, a better argument was made that we should notify customers of the change but that customers should not expect anything different other than our already high level of service. I am thrilled to say that turned out to be 100% correct. Our collective IRC and Customer Support team has really stepped up and our customers have been receiving the same excellent service from our IRC that they always have, without any interruption or disruption.



Three very important lessons came out of this, the first of which I learn and re-learn all the time. One- I don't always get it right and thank goodness I have an amazing senior leadership team that talks me off the rail every now and then. Two- when you have a purpose-built, strong company culture that is based on trust, collaboration can happen digitally and transcend time and space. And Three- it's amazing what can happen when you challenge people to step up. This reminds me of the 1949 movie Twelve O'Clock High, in which Gregory Peck plays the character Brigadier General Frank Savage.

General Savage totally believes in his team but is also not afraid to be demanding with respect to setting high standards , just above what people think they can do. Amazingly, they come through with fantastic results exceeding everyone's expectations . Great movie, by the way.

Medium-Term Growth Strategy

Our goal over the medium term (4-5 years) is to have impact well beyond our current 100+ customers given what we see in the global market opportunity for acoustic gunshot detection and ancillary services. We are aware of the strong headwinds we face due to the coronavirus pandemic and its associated problems, which could dampen our growth prospects over the next several months. That being said, we remain confident that the fundamental tenets of our medium to long term market opportunity remain intact. We do not currently see anything that would suggest we are going to experience an urban gun crime peace dividend or diminished need for our solution. Sadly, the world has become more dangerous, with more guns, less social cohesion and increasingly manpower-challenged police departments.

Our path to **\$100 million** in annual recurring revenue over the medium term remains the same. The first task is to retain our 100+ customers in order to hold onto the approximately **\$43 million** in annual recurring revenue¹ we closed the year with in 2019. Our next priority is to engage in expansion opportunities from those existing 100 customers, which we estimate to be approximately 100 miles totaling approximately **\$6-7 million** in annual recurring revenue. We also need to double the customer base from 100 to 200, adding another approximately 100 net new customers. These customers would on average need deploy 5 square miles each for a total of 500 square miles, adding another approximately **\$33-35 million** of annual recurring revenue.

Our international business in the medium term consists of opportunities in the Caribbean, Latin America and South Africa. We have established a good foundation in the Caribbean and South Africa and expect to add customers from Mexico, Brazil, Colombia and Panama in the near future. We believe over the medium term we can generate approximately **\$10-15 million** in annual recurring revenue from international business.

Missions, our precision policing solution based on our HunchLab technology acquisition from Azavea, is off to a solid start. Agencies are increasingly looking to implement intelligence-led, data-driven strategies, and we believe Missions suits that purpose perfectly. As a ShotSpotter Flex upsell that directly integrates our proprietary gunfire data, we believe Missions can drive at least **\$5 million** in annual recurring revenue over the medium term and could potentially drive growth beyond that to the extent we were prepared to go global and/or consider offering Missions to non-ShotSpotter Flex users more broadly.

The security business pipeline is growing as we increasingly field inbound interest from corporate prospects in addition to our traditional college campus security prospects. This year we specifically dedicated a sales resource along with complementary marketing programs with the goal of making that an approximately **\$5 million** annual recurring revenue business over the medium term.

In total this represents an opportunity for approximately **\$110 million** in annual recurring revenues, which does not include ancillary growth drivers such as data sales, ShotSpotter Labs or modest price increases. Nor does it include platform extensions into the post-gunfire incident investigation space, which could be developed organically or sourced through acquisition. Our target operating model for the medium term at \$100 million in revenue would yield approximately 65-70% gross margin and Adjusted EBITDA margin² of approximately 45%+.

COVID-19 Part II

It is encouraging to see how people are coming together to address this pandemic. COVID-19 taught us an important lesson on how connected and dependent we are on one another. In many ways, it has brought out the best in us. Having ongoing dialogue with our customers, we became intimately familiar with the resource challenges they were having around personal protective equipment (PPE).



Police departments are the proverbial cobbler's children when it comes to PPE, despite the fact that their job requires them to engage in up-close and personal contact. We are grateful to have been able to leverage our contract manufacturing partner and their proprietary Asian based supply chain network to source and procure 20,000 N-95 masks that we distributed to many of our law enforcement partners. Although our donation was extremely modest, relative to the need of our customers, they were appreciative of the gesture and very surprised about our nimbleness in proving the art of the possible.

We will be in a brave new world even when things "open back up". Our customers and prospects will be fatigued at best and more likely, distracted due to a whole new set of enforcement measures and demands. A major crisis such as COVID-19 often reshapes policing, and we will be an active partner with our customers to help shape and adapt to this new reality. It is very likely that in the near term, municipal budgets will be reduced, putting pressure on elected officials and their police departments to prioritize their spending, while demands for municipal services could simultaneously increase. Potential material reductions in force would exacerbate this challenging environment. We do see, however, some partial relief on municipal budget pressures coming from federal stimulus. For example, the Edward Byrne Memorial Justice Assistance Grant (JAG) Program within the Department of Justice received a plus-up of \$850 million for fiscal 2020 as a part of the recent \$2.2 trillion federal stimulus bill.

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1. We define annual recurring revenue as the revenue we would contractually expect to receive from customers over the following 12 months, without any increase or reduction in any of their subscriptions, and assuming that contracts existing as of the measurement date will all renew at their respective contract expirations.
 2. We define Adjusted EBITDA margin as net income or loss before interest (income) expense, income taxes, depreciation and amortization and stock-based compensation expense, divided by total revenues.

As a company, we will need to sharpen and re-position our value proposition, where appropriate, to make it relevant to prospects in this brave new world. We will travel less and have more video sales calls and consultative engagements. As such we are required to master high production quality and impactful video calls. We also need to fine-tune our sales playbook and customer onboarding practices to reflect this new digital reality that will limit our face to face interactions. We are already making excellent progress on this front.

When an agency decides whether to move forward with or renew their ShotSpotter services, I have often said, “it’s not about the money” and “it is (or was) much more about deciding to prioritize an intelligence-led, focused deterrence strategy in order to prevent and reduce gun violence”. While that was very true last month and in prior years, it may not be the case now in this new normal. We’re going to have to become much more involved and value added in helping our customers where needed, to get creative to identify and get funding. Opening our Washington DC office this June is fortuitous in this regard. We have already been working on the legislative front on securing a funding stream specifically targeted for gunshot detection technology (see HR Bill 5385 with bipartisan sponsorship from Representatives Kelly and Sensenbrenner). Being local in DC gives us the opportunity to get in front of and have many more touch points with people and organizations directly responsible for and influence of major funding streams we can help direct to our customers for ShotSpotter.

We unfortunately do not see an appreciable reduction in gunfire despite broad-based quarantine directives. Sadly, it is business as usual and we know we are headed into our traditional seasonal gun violence uptick, as the weather warms up and school is in recess for the summer. We believe that uptick could potentially spike even more, with increased unemployment, higher economic anxiety, more drug and alcohol abuse and less social cohesion (remember people fighting in the aisles of Walmart for toilet paper?). Even more concerning will be the re-establishment of gang/drug trade territories that are up for grabs coming out of quarantine. Unfortunately, gangs do not “lawyer up” with attorneys to settle disputes, they “grip up” with guns. Add in law-enforcement workforce depletions and we have a potentially very challenging situation. In this scenario, we believe the demand for our solutions could increase, as technology-enabled, intelligence-led strategies should have to be part of the discussion inside of agencies facing this difficult reality.

Summary

I am so incredibly proud of this team and the strong collaborations we have forged with our many customers, not only at the agency level but at the personal level. We have a purpose-built culture with strong stakeholder alignment. At the business level, we have built a unique and specialized technology with strong barriers to entry. We have good recurring revenue visibility and a strong balance sheet. But most of all we continue to make solid progress in a largely underserved and under-penetrated market, doing work that matters in helping solve a very large societal problem.

I'll close this letter by saying, I hope you and your loved ones stay safe and healthy.

Looking forward to our journey over the coming year and beyond.

Sincerely,



Ralph Clark

This letter contains forward-looking statements, including but not limited to statements regarding: the duration of the company's headquarters closure and travel ban and their impact on the company's operations; the company's ability to maintain a high revenue retention rate, high NPS and low customer acquisition costs; the company's plans to grow its customer success organization in 2020; the company's plans to retain existing customers, take advantage of expansion opportunities within its existing customer base, and add additional customers, both internationally and domestically; the company's plans to generate revenues from sales of ShotSpotter Missions and its security product offering; and the company's efforts to assist its customers with securing funding for purchases of the company's services. The company's actual results could differ materially from those stated or implied in forward-looking statements due to a number of factors, such as the duration and extent of the COVID-19 crisis and including those described in the risk factors included in the company's most recent annual report on Form 10-K and other SEC filings. These forward-looking statements are made as of the date of this letter and are based on current expectations, estimates, forecasts and projections as well as the beliefs and assumptions of management. Except as required by law, the company undertakes no duty or obligation to update any forward-looking statements contained in this letter as a result of new information, future events or changes in its expectations.